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TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 080125

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E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
MARCH 28, 2978

1. ADF REPLENISHMENT OF 2.0 BILLION DOLLARS (CONFIDENTIAL)

THE PRESIDENT SELECTED THE STATE/AID HIGH OPTION FOR THE
ASIAN DEVELOPMENT FUND REPLENISHMENT, AGREEING TO A
FOUR-YEAR REPLENISHMENT OF UP TO 2 BILLION DOLLARS. US
ANNUAL CONTRIBUTIONS WOULD BE UP TO 111 MILLION DOLLARS
COMPARED TO OUR CURRENT 60 MILLION DOLLAR CONTRIBUTION.
CONSULTATIONS WILL BEGIN IMMEDIATELY WITH CONGRESS AND,
IF THEY PROCEED SATISFACTORILY, THE US WILL MAKE ITS
PLEDGE AT THE ADB ANNUAL MEETING IN VIENNA.

2. US-ASEAN DIALOGUE (CONFIDENTIAL)

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ROMULO CONFIRMED TO AMBASSADOR NEWSOM THAT ASEAN AGREED
TO OUR SUGGESTION TO HAVE THE NEXT ASEAN-US DIALOGUE
ON MINISTERIAL LEVEL. SECRETARY VANCE HAS AGREED TO
EARMARK A DAY ON HIS CALENDAR IN THE LAST WEEK OF JULY
TO LEAD THE US DELEGATION.

THERE IS ALSO MOVEMENT AT LONG LAST ON THE PART OF

ASEAN TO DEVELOP ITS POSITION ON AID PROJECTS. THE PHILIPPINES ARE TAKING THE LEAD ORGANIZING AN ASEAN WORKING GROUP WITH EXPECTATIONS THAT THEY CAN MEET WITH A US TEAM OF EXPERTS EARLY IN MAY TO WORK OUT AN AGREED PROGRAM OF DEVELOPMENT COOPERATION SERVING ASEAN AS A REGION.

IN RESPONSE TO A REQUEST OF THE US CHAMBER OF COMMERCE WE ASKED THE DEPUTY SECRETARY TO SEND A LETTER ENDORSING THE SETTING UP OF A US-ASEAN ECONOMIC COUNCIL.

3. AID ASIA BUREAU'S BUDGET GUIDANCE
(LIMITED OFFICIAL USE)

AID ASIA BUREAU GUIDANCE TO ITS AID MISSIONS ON PREPARATION FOR THE FY 1980 BUDGET AND PROGRAM POINTS OUT THAT THE ADMINISTRATION WILL BE SEEKING SUBSTANTIAL INCREASES IN BILATERAL ECONOMIC ASSISTANCE IN FY 1980. SINCE GREATER WEIGHT WILL BE GIVEN TO POPULATION, POVERTY AND PERFORMANCE CRITERIA THEN IN THE PAST, ASIAN COUNTRIES COULD RECEIVE A PROPORTIONALLY LARGER SHARE OF THIS EXPANDED BASE, ALTHOUGH THIS APPLIES MORE TO SOUTH ASIA THAN EAST ASIA. INITIAL AID FY 1980 PLANNING MARKS FOR EAST ASIAN RECEPIENT COUNTRIES WITH THE FY 1979 CONGRESSIONAL REQUEST IN PARENTHESIS ARE (MILLIONS): INDONESIA 111 DOLLARS (73 DOLLARS); THE PHILIPPINES
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50 DOLLARS (55 DOLLARS) AND THAILAND 21 DOLLARS (13 DOLLARS). THE MESSAGE URGES THE MISSIONS TO GIVE PARTICULAR ATTENTION TO THE POSSIBILITY OF UNDERTAKING NEW OR EXPANDED ACTIVITIES IN RURAL-BASED EMPLOYMENT, ENVIRONMENTAL DEGRADATION, ALTERNATIVE ENERGY RESOURCES, LOW COST INTEGRATED HEALTH AND FAMILY PLANNING DELIVERY SERVICE, PL-480 TITLE III, ACTIVITIES DESIGNED TO PROMOTE POLITICAL AND CIVIL RIGHTS, PRIMARY SCHOOL AND NON-FORMAL EDUCATION AND URBAN DEVELOPMENT.

4. FRED BERGSTEN ADVOCATES GREATER US EXPORT ORIENTATION (LIMITED OFFICIAL USE)

TREASURY ASSISTANT SECRETARY BERGSTEN IS TO GIVE A SPEECH TOMORROW TO THE JAPAN SOCIETY IN NEW YORK. HE WILL BE ADVOCATING STRUCTURAL CHANGES BOTH IN THE US AND JAPANESE ECONOMIES. FOR THE US, HE NOT ONLY CALLS FOR A DRASTIC CUT IN THE USE OF ENERGY BUT URGES THAT THE US MUST BECOME MUCH MORE EXPORT ORIENTED. THIS REFLECTS A WELCOME CHANGE IN TREASURY'S POSITION; NEXT TASK IS TO PERSUADE FRED THAT INVESTMENT AND TRADE ARE INTERRELATED.

5. MODEL INVESTMENT TREATY - SINGAPORE
(LIMITED OFFICIAL USE)

THE EPG AD HOC INVESTMENT POLICY GROUP, MEETING MARCH 23 IN THE STATE DEPARTMENT, WAS ABLE TO RESOLVE THE REMAINING ISSUES AND REACH AGREEMENT IN SUBSTANCE ON ALL PROVISIONS OF A MODEL INVESTMENT TREATY. THE US WILL OFFER TO NEGOTIATE SUCH A TREATY FIRST WITH SINGAPORE, TO FULFILL THE PRESIDENT'S COMMITMENT TO PRIME MINISTER LEE LAST FALL. ONE CHANGE FROM THE ORIGINAL DRAFT WILL BE TO PROVIDE FOR CONSULTATIONS ON MATTERS CONCERNING PRIVATE INVESTMENT. THE PURPOSE OF CONSULTATIONS WILL BE DESCRIBED IN GENERAL LANGUAGE THAT DOES NOT RAISE RED FLAGS, BUT TREASURY'S VIEW WAS ACCEPTED THAT THE US COULD USE THAT TREATY PROVISION TO RAISE A WIDE RANGE OF QUESTIONS CONCERNING PRIVATE INVESTMENT, SUCH AS HOST

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COUNTRY LAWS AND REGULATIONS AFFECTING US INVESTMENT. REVISION OF THE PRESENT TREATY DRAFT TO INCORPORATE THE GROUP'S DECISIONS IS NOT EXPECTED TO BE DIFFICULT. THE GOAL IS TO HAVE A COMPLETE AGREED DRAFT BY THE FIRST WEEK IN APRIL FOR TRANSMITTAL TO EMBASSY SINGAPORE. THE PAPER CONSIDERED BY THE EPG IS BEING POUCHED TO THE EMBASSY.

6. STEEL (LIMITED OFFICIAL USE)

A LARGE DOMESTIC STEEL WIRE PRODUCER, DAVIS WALKER, HAS FILED A COMPLAINT CHALLENGING THE LEGALITY OF THE TRIGGER PRICE (TP) SYSTEM. THE US DISTRICT COURT HAS GRANTED A PRELIMINARY INJUNCTION PROHIBITING TREASURY FROM INCLUDING STEEL WIRE ROD IN THE TP. IN ADDITION TREASURY HAS BEEN ORDERED TO MAKE THE JAPANESE DATA USED TO ESTABLISH THE TRIGGER PRICES AVAILABLE UNDER PROTECTIVE ORDER TO THE PLAINTIFF'S COUNSEL ONLY (I.E. NOT TO DAVIS WALKER). IF THE DAVIS WALKER CHALLENGE IS SUCCESSFUL, IT IS LIKELY THAT THE TP SYSTEM WILL FALL APART.

THE US HAS PROPOSED AN INTERNATIONAL STEEL ARRANGEMENT WHICH BASICALLY ESTABLISHES GUIDELINES FOR TRADE ACTIONS DEALING WITH STEEL. THE JAPANESE ARE NOT ENTHUSIASTIC ABOUT THE IDEA OF FORMAL AGREEMENTS AS THEY COULD IMPLY GREATER RESTRICTIONS NOT ONLY FOR STEEL TRADE BUT OTHER SECTORS AS WELL. NEVERTHELESS THEY ARE WILLING TO HEAR US OUT. WE WILL ALSO BE DISCUSSING THE PLAN WITH THE EC.

7. FOOTWEAR (LIMITED OFFICIAL USE)

THE KOREANS HAVE ASKED THAT WE AMEND THE OMA ON FOOTWEAR TO ALLOW AN ADDITIONAL 4.5 MILLION PAIRS OF SHOES TO ENTER THE US. THESE SHOES, ALONG WITH AN ESTIMATED 10 MILLION PAIR FROM THE ROC, WERE CAUGHT IN THE PIPELINE (I.E. WERE SHIPPED BEFORE BUT ARRIVED AFTER THE OMA WENT INTO EFFECT) AND RESULTED IN THE OVERSHIPMENT. WHILE WE ARE SYMPATHETIC TO THE KOREAN REQUEST, LEGAL REQUIREMENTS

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MAKE IT IMPOSSIBLE FOR US TO AMEND THE OMA BEFORE APRIL 10, THE DATE WHEN KOREAN SHOES ARE LIKELY TO BE EMBARGOED. NEVERTHELESS WE INTEND TO TRY TO AMEND THE OMA TO MAKE SOME ALLOWANCE FOR BOTH KOREAN AND TAIWANESE SHOES.

8. NEGOTIATIONS ON A WHEAT AGREEMENT RECESSED
(LIMITED OFFICIAL USE)

NEGOTIATIONS TO REPLACE THE EXISTING INTERNATIONAL WHEAT AGREEMENT WITH A MORE MEANINGFUL AGREEMENT PROVIDING FOR A SUBSTANTIALLY GREATER DEGREE OF WORLD FOOD SECURITY RECESSED MARCH 23 WITH SEVERAL MAJOR ISSUES UNRESOLVED. THE MAIN DIFFERENCES ARE BETWEEN THE EC ON THE ONE HAND AND THE US, GENERALLY SUPPORTED BY THE OTHER EXPORTING COUNTRIES, ON THE OTHER AND RELATE TO EC INSISTENCE ON INCLUDING FIXED MINIMUM AND MAXIMUM PRICES AND ON HOLDING PARALLEL NEGOTIATIONS FOR A CONVENTION COVERING TRADE IN COURSE GRAINS. AS AN INTERIM MEASURE, THE EXISTING AGREEMENT HAS BEEN EXTENDED FOR ANOTHER YEAR BEGINNING JUNE 30, 1978. HOWEVER, TECHNICAL TALKS WILL CONTINUE THROUGH THE SUMMER WITH THE INTENT OF RESUMING NEGOTIATIONS ON A NEW AGREEMENT BY SEPTEMBER OF THIS YEAR.

9. COMMON FUND (LIMITED OFFICIAL USE)

WE ARE CIRCULARIZING A CABLE TO ALL POSTS WHICH OUTLINES THE STATUS OF THE COMMON FUND NEGOTIATIONS. IN IT WE POINT OUT THAT WE BELIEVE COREA'S TIMETABLE FOR THE RESUMPTION OF NEGOTIATIONS (MAY) IS TOO OPTIMISTIC; A MORE LIKELY DATE IS OCTOBER OR NOVEMBER.

10. ALATAS LEAVING GENEVA (UNCLASSIFIED)

AMBASSADOR ALATAS, INDONESIA'S REPRESENTATIVE IN GENEVA, WHO HAS BEEN SPOKESMAN FOR THE G-77 ON THE COMMON FUND AND HAS PLAYED A MAJOR ROLE IN G-77 ON ALL UNCTAD ISSUES, IS LEAVING GENEVA BY JUNE 1 AND TAKING CHARGE OF THE GOI'S
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FOREIGN SERVICE. OUR GENEVA MISSION COMMENTS THAT DESPITE THE FACT THAT WE HAVE BEEN FREQUENTLY ON OPPOSITE SIDES WE HAVE FOUND ALATAS VERY ABLE, REASONABLE AND GOOD TO WORK WITH.

11. CB RADIOS (UNCLASSIFIED)

PRESIDENT CARTER HAS GRANTED TEMPORARY IMPORT RELIEF TO

DOMESTIC CB MANUFACTURES IN THE FORM OF INCREASED TARIFF PROTECTION FOR THREE YEARS. THE TARIFF WILL BE INCREASING BY 15 PERCENTAGE POINTS TO A NEW LEVEL OF 21 PERCENT DURING THE FIRST YEAR, PHASED DOWN IN THREE PERCENTAGE POINT INCREMENTS FOR THE FOLLOWING TWO YEARS, AND REVERT TO ITS CURRENT RATE OF SIX PERCENT IN THE FOURTH YEAR. THE PRESIDENT'S ACTION WILL PRIMARILY AFFECT IMPORTS FROM JAPAN, KOREA, HONG KONG AND THE ROC.

12. OECD SEC GEN VAN LENNEP TO VISIT WASHINGTON
(LIMITED OFFICIAL USE)

OECD SEC GEN VAN LENNEP WILL VISIT WASHINGTON, APRIL 24-27. HE WISHES TO MEET WITH APPROPRIATE ADMINISTRATION OFFICIALS TO DISCUSS A BROAD RANGE OF OECD ACTIVITIES, CONCENTRATING ON THE UPCOMING MINISTERIAL MEETING, JUNE 14-15.

INCIDENTALLY, WE REPORTED EARLIER THAT THE "LOCOMOTIVE" THEORY ON HOW TO DEAL WITH THE ECONOMIC HEALTH OF THE INDUSTRIALIZED DEMOCRACIES HAS BEEN REPLACED BY THE "CONVOY" SIMILE ONLY TO BE ATTACKED THAT THAT MEANS TO MOVE AT THE SPEED OF THE SLOWEST SHIP. NOW IT IS SUGGESTED THAT THE OECD STRATEGY SHOULD BE CALLED THE "CONCERTED REFLATIONARY ADJUSTMENT PROGRAM"; BUT WE ARE STILL SEARCHING FOR A SUITABLE ACRONYM.

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